

September 1997

FINANCIAL AUDIT

Review of the Audit of SEMATECH's Financial Statements for 1996





**United States
General Accounting Office
Washington, D.C. 20548**

**Accounting and Information
Management Division**

B-278040

September 29, 1997

The Honorable Strom Thurmond
Chairman
The Honorable Carl Levin
Ranking Minority Member
Committee on Armed Services
United States Senate

The Honorable Floyd Spence
Chairman
The Honorable Ronald V. Dellums
Ranking Minority Member
Committee on National Security
House of Representatives

The National Defense Authorization Act for Fiscal Years 1988 and 1989 (Public Law 100-180) requires that we review the annual audits of the financial statements of SEMATECH, Inc., a consortium of U.S. semiconductor manufacturers and the Department of Defense, and provide comments to you on the statements' accuracy and completeness. This report presents the results of our review of the audit conducted by Price Waterhouse, an independent public accounting firm, of SEMATECH's financial statements for the year ended December 31, 1996.

Results in Brief

Price Waterhouse's opinion, dated January 31, 1997, stated that SEMATECH's financial statements for the year ended December 31, 1996, are fairly presented in all material respects in conformity with generally accepted accounting principles. Also, as required by generally accepted government auditing standards, Price Waterhouse issued reports on SEMATECH's internal control structure and its compliance with laws and regulations. These reports disclosed no material internal control weaknesses or noncompliance with laws and regulations.

The results of our review disclosed no instances where Price Waterhouse's opinion on SEMATECH's 1996 financial statements, its report on internal control structure, or its report on compliance with laws and regulations did not comply, in all material respects, with generally accepted government auditing standards.

Background

SEMATECH was incorporated in Delaware in August 1987 as a nonprofit research and development corporation with the objective of advancing semiconductor manufacturing technology. The National Defense Authorization Act for Fiscal Years 1988 and 1989, enacted in December 1987, authorized the Secretary of Defense to make grants to SEMATECH to defray research and development expenses. The act also required the Secretary of Defense to enter into a memorandum of understanding with SEMATECH. The memorandum provided that the total amount of funds made available to SEMATECH by federal, state, and local government agencies for any fiscal year for the support of research and development activities may not exceed 50 percent of the total cost of such activities. The remaining 50 percent is funded by member companies.

Scope and Methodology

Our review considered (1) the extent to which SEMATECH has ensured that member company funding was not less than 50 percent of the cost of research and development activities for 1996 and (2) the accuracy and completeness of the financial audit conducted by Price Waterhouse.

To determine the extent of funding match, we reviewed SEMATECH's 1996 financial statements and related notes and compared the amounts funded by the member companies, plus interest earned and less any unallowable costs, to amounts funded by federal and state government. There was no local funding.

To determine the accuracy and completeness of the independent audit, we

- reviewed the auditor's approach and planning of the audit;
- evaluated the qualifications and independence of the audit staff;
- reviewed the financial statements and auditor's reports to evaluate compliance with generally accepted accounting principles and generally accepted government auditing standards; and
- reviewed the auditor's working papers to determine (1) the nature, timing, and extent of audit work performed, (2) the extent of audit quality control methods the auditor used, (3) whether a review was conducted of SEMATECH's internal control structure, (4) whether the auditor tested transactions for compliance with applicable laws and regulations, and (5) whether evidence in the working papers supported the auditor's opinion on the financial statements and internal control structure and compliance reports.

Our review, as differentiated from an audit of financial statements performed in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on SEMATECH's financial statements, a conclusion about the effectiveness of its internal controls, or conclusions on compliance with laws and regulations. Price Waterhouse is responsible for its report on SEMATECH dated January 31, 1997, and the conclusions expressed in its report.

Our review was conducted in accordance with generally accepted government auditing standards. We discussed the results of our review with cognizant Price Waterhouse, SEMATECH, and Defense officials. This report does not include a copy of SEMATECH's 1996 financial statements because they contain proprietary information.

We are sending copies of this report to the Secretary of Defense, the Chairman of the Board of Directors of SEMATECH, representatives of Price Waterhouse, and other interested parties. Copies will be made available to others upon request. Please call me or Roger Stoltz, Assistant Director, at (202) 512-9489 if you or your staffs have any questions.

A handwritten signature in black ink, reading "David L. Clark". The signature is stylized with a large, sweeping "D" and a prominent "X" at the end of the last name.

David L. Clark
Director, Audit Oversight and Liaison

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